

EBS/81/170

CONFIDENTIAL

August 17, 1981

To: Members of the Executive Board

From: The Secretary

Subject: Yugoslavia - Stand-By Arrangement - Review of Developments

Attached for consideration by the Executive Directors is a paper on a review of developments in the stand-by arrangement for Yugoslavia.

It is proposed that this subject be brought to the agenda for discussion on Wednesday, September 16, 1981.

Att: (1)



INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Stand-By Arrangement: Review of Developments

Prepared by the European Department and  
Exchange and Trade Relations Department

(In consultation with the Legal Department, the Research Department,  
and the Treasurer's Department)

Approved by L. A. Whittome and Subimal Mookerjee

August 13, 1981

I. Introduction

On January 30, 1981, the Executive Board approved a stand-by arrangement for a period of three years (EBS/81/5, Sup. 2, 2/2/81) in an amount equivalent to SDR 1,662 million, to be financed from the Fund's ordinary resources (SDR 304.2 million) and from the supplementary financing facility (SDR 1,357.8 million). A Fund mission consisting of G. Tyler, L. Manison, J. Odling-Smee (all EUR), N. Kirmani (ETR), and, as secretary, S. Dyson (BLS) was in Belgrade from June 22 to July 3, 1981 to discuss developments in Yugoslavia since the beginning of the stand-by arrangement. In addition to discussions with senior officials, the mission had meetings with Mr. Ksente Bogoev, the Governor of the National Bank of Yugoslavia, and Mr. Petar Kostic, Federal Secretary of Finance. This memorandum, describing the mission's findings, is circulated as the basis for discussion by the Executive Directors.

All the quantified performance criteria under the stand-by arrangement were met on March 31 and June 30, 1981. A limitation on the export and import of dinar banknotes introduced in July 1981 as a temporary measure constituted an intensification of an exchange restriction. On August 5, 1981, the Fund granted temporary approval of this restriction and granted a waiver under the stand-by arrangement (EBS/81/161, 7/31/81).

Yugoslavia's use of Fund resources is summarized in Table 1. As of July 28, 1981:

Table 1. Yugoslavia: Fund Position

	July 28, 1981	
	In millions of SDRs	In per cent of quota
Holdings related to		
Compensatory financing facility	277.00	66.67
Borrowed resources	321.82	77.45
Tranche holdings	664.10	159.83
Total Fund holdings	1,262.92	303.95

Source: International Monetary Fund (European and Treasurer's Departments).

## II. Economic Developments in the First Half of 1981

### 1. Domestic economy

#### a. Aggregate production and demand

The Annual Plan for 1981 called for real GSP to rise by 3.2 per cent as a result mainly of a projected 7.0 per cent increase in the volume of exports of goods and services (Table 3). Real domestic demand was to be kept constant, with real private consumption targeted to rise by 2.5 per cent, and largely offset a planned 4.8 per cent fall in real fixed investment. Partial data indicate that excess demand continued to abate in the first part of 1981 with real domestic demand falling and aggregate production rising at a modest rate.

Real personal consumption is estimated to have fallen by at least 2 per cent in the first part of 1981 as a result mainly of a fall of 7-8 per cent in real personal incomes in the socialized sector compared with the same period of 1980. Personal consumption was to some extent sustained by the high level of workers' remittances from abroad. Real public consumption has been cut back also in response to tight fiscal policies, which kept the growth in nominal expenditure well below the rate of inflation. Partial indicators suggest that the rate of fixed capital formation in the first five months of 1981 was about 8 per cent below that in the corresponding period of 1980. The decline in the components of final domestic demand combined with the acceleration in industrial production have led to a buildup of inventories in recent months, particularly of consumer durable goods.

In the first six months of 1981 the level of industrial production was 4.3 per cent above that in the same period of 1980. From March onward, the growth of industrial production quickened, especially in the output of coal,

iron, and chemical products. It is expected that the actual growth of industrial production in 1981 will be around the planned target of 4 per cent. (Table 4). Evidence at the time of the discussions suggested, that with good weather conditions agricultural production in 1981 could rise at a targeted rate of nearly 4 per cent, with favorable crop yields being expected for corn, sugar, and sunflower seed. It is not known whether the bad weather affecting parts of Europe has adversely affected Yugoslavia. Construction activity was the most depressed sector in the first half of 1981, due to the sharp reduction in the rate of fixed capital formation.

As described later, real personal incomes are expected to be less than in 1980 and the increase in real personal consumption is now expected to be somewhat lower than the original projection of 2.5 per cent. Fixed investment is expected to be kept within the planned limit, while public consumption is now forecast to show a modest fall compared with the small rise planned originally. If the steady export performance of recent months is sustained, the authorities expect that real gross social product will rise by about 3 per cent.

b. Investment program

The Plan for 1981-85 aims at restructuring the supply side of the economy to help make the balance of payments more viable. The main instrument for effecting this restructuring is the alteration of the composition of investment in favor of priority sectors 1/ (Table 5). Agreement on the general objectives of investment policy for the country as a whole over the plan period were reached in March 1981; however, there have been delays in obtaining agreement between republics and autonomous provinces on the detailed distribution of fixed investment and its financing. The federal plans' investment targets were reviewed by World Bank staff on a plan review mission, which visited Yugoslavia in June 1981; 2/ in their preliminary judgment, the federal plan's investment targets in aggregate and in major sectors are attainable.

In addition to profit criteria, the system of rationing bank credit is a major means of influencing the channeling of investment funds to priority areas. The criteria that have been adopted by banks in screening investment projects vary from bank to bank, but are basically in accord with the development priorities outlined in the Plan and the annual resolution for implementing the Plan. Banks assess proposed investment projects by their ability to satisfy criteria which differ from republic to republic. For example, in Slovenia banks tend to give greater weight to the export-oriented aspect of a project, while in Serbia the development of domestic raw materials is given greater importance. The Yugoslav bankers' association is to issue later this year a handbook indicating how banks should evaluate proposed investment projects in terms of their ability to meet development priorities.

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1/ For a discussion of priority sectors and investment policy, see EBS/81/5 (1/16/81), p. 4 and pp. 10-11.

2/ Mr. Manison (EUR) participated in this mission.

Other measures and incentives intended to channel resources to priority areas are preferential interest rates and lower rates of taxation on priority activities, import tariff rebates for exporters, the compulsory pooling of resources in priority areas such as electrical energy production, the requirement that 80 per cent of foreign credits disbursed (excluding World Bank loans) be deployed by the republics and provinces in priority activities, and the use of the Fund for the Development of the Less-Developed Republics and Kosovo for directing resources to those activities. Data for the first part of 1981 indicate that both the structure of investment and production has moved in the desired direction.

c. Prices

The most disturbing developments in the domestic economy in 1981 have been in the area of prices. Although monthly increases in prices have tended to be lower following their very high increase in January 1981, <sup>1/</sup> the 12-monthly rate of increase has continued to rise during 1981, reaching 53 per cent and 50 per cent, in the retail and industrial producer price indices, respectively, in May 1981 (Table 6). The accelerated rate of inflation has been due largely to factors of domestic origin. Of the 25 per cent increase in the industrial producer price index since December, only 3 percentage points are estimated to have been accounted for by foreign price developments. In January 1981 industrial producer prices rose by 9 per cent as many enterprises engaged in anticipatory price increases, so that they could increase profit margins above the levels that they expected would be implicit in the formal price agreements governing 1981. They were able to do this because it was only in March 1981 that both the criteria for justifying price increases and the official price targets and guidelines on price policy were specified. The price system is described in Annex I to this paper. Higher sales and turnover tax rates contributed also to the upward pressure on prices in the initial months of 1981.

The official price targets introduced in March 1981 called for the increase in the retail price index to be limited to 32 per cent over the 12 months to December 1981, and that in the industrial producer price index to 30 per cent. With domestic prices continuing to rise at excessively rapid rates in April and May, the authorities on June 18 enacted legislation to limit price increases to 5 per cent and 7 per cent, for services and goods, respectively, over the remainder of the year. Enterprises which were judged to have raised prices excessively in the first five months of 1981 will not be permitted to raise prices further during the rest of the year, while others which had implemented moderate price increases may be allowed to raise prices by more than 7 per cent. The agreement on implementing the price policy in March 1981 required also that republican and provincial governments provide subsidies for part of the increase in the prices of basic foodstuffs (milk, bread, meat, and poultry). The extent of these subsidies was to vary from republic to republic and would in practice be limited by their ability to finance them. While it has been decided to

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<sup>1/</sup> The high increase in January 1981, partly arose because of the recording in price indices of increases that had taken place in late 1980 but which had not been reported to the price authorities.

provide these subsidies until September 1981, it is possible that they will be in effect up to the end of the year.

The authorities believe that the continuation of tight financial policies, the restraint exercised over the growth of personal incomes, and the recent deceleration in the increases in import costs are all factors that will reinforce the moderating effects of the price controls. On the other hand, they acknowledge that further depreciation of the dinar could aggravate the situation. However, in this context, they noted that the recent increases in the internal saving rates of enterprises <sup>1/</sup> and the reduction in their obligations to finance collective consumption would help them absorb higher import costs.

The authorities have not made a firm decision on when the current price controls will be lifted. They recognize that a continuation of strict administrative controls could lead to serious price distortions and to the possibility of a further price explosion when eventually the controls are removed. They hope, however, that by the end of the year it will be possible to achieve a price structure that will provide enterprises with adequate profits and that a second half of 1981 with a much reduced rate of inflation will sharply reduce inflationary expectations. If such a situation can be achieved, the authorities would hope to be able to ease substantially price controls in 1982.

d. Personal incomes and receipts

Following a decline of 7-8 per cent in real personal incomes in 1980, the Annual Plan for 1981 envisaged an increase in real personal incomes in line with the projected rise in labor productivity. However, with the acceleration in domestic price increases, and the restraint exercised over the growth of nominal personal incomes in the first part of 1981 (Table 7) real personal incomes continued to fall. It is estimated that in the first five months of 1981 real personal incomes in the socialized sector were 7 per cent below their level in the corresponding period of 1981. In accordance with the official guidelines on incomes policies, increases in personal incomes have been limited in the noneconomic sector (banking, insurance, education, health, government, etc.) to a rate of at least 5 percentage points below that of personal incomes in the economic sector. Preliminary data for the first quarter suggest that the decline in real personal income payments in the noneconomic sector was about twice as great as that in the economic sector.

Pensions and other transfers recorded real declines in line with those in real personal incomes in the early months of 1981. However, considerable increases in workers' remittances from abroad helped boost household receipts and allowed them to show only a modest fall in real terms in the first part of 1981. While the authorities are expecting a rise in real personal incomes in the second half of the year, it is expected that there could be a sizable decline in their average level in 1981, compared with that in 1980.

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<sup>1/</sup> In the first three months of 1981 it is estimated that enterprise savings rose by 64 per cent compared with the same period of 1980.

e. Budgetary developments and fiscal policy

Although the Federal Government has in recent years been directly responsible for less than a quarter of total public sector expenditure, the deficit on its budget has exceeded that for the public sector as a whole (Table 8). This reflects the fact that the other levels of government and communities of interest are usually obliged to balance their budgets and cannot borrow from the banking system. In 1980, the Federal Government budget deficit was Din 20.3 billion, while that for the whole public sector was only Din 10.7 billion. Although detailed figures for 1980 are not yet available, the main surplus sectors appear to have been those providing social services (other than health services and pensions) and the social security funds.

The Federal Government deficit in 1980 was much larger than the planned deficit of Din 6.3 billion. The excess was mostly financed by issuing bonds totaling Din 13.3 billion to the commercial banks (Table 9). Expenditure was 3.5 per cent greater than planned, but it was still fractionally lower as a percentage of gross social product than in 1979 (8.4 per cent in 1979 and 8.3 per cent in 1980). Revenue was 9.2 per cent less than planned, with the major shortfall occurring in customs duties as a result of the abolition of the 10 per cent import surcharge, and an unforeseen shift in the structure of imports toward lower-taxed items.

The Federation's expenditure plans for 1981 have not been changed significantly in nominal terms from those decided in late 1980, despite the higher-than-expected price increases that have occurred so far in 1981. The volume of expenditure is therefore likely to be less in real terms than originally planned and there should be a further decline in the ratio of expenditure to gross social product to about 7 per cent. This is in line with the medium-term objective of reducing the relative size of the public sector.

Expenditure by the Federation in the first five months of 1981 lagged behind schedule, and was only 32 per cent of the total planned for the year. However, receipts by the Federation were also low, with only about 30 per cent of the annual total being received by the same date (Table 9). No difficulties are anticipated in achieving the planned revenue from customs duties and other import fees. Although contributions to the federal budget from republics and provinces are well behind schedule, the Federal Government has the power to ensure that the planned amounts, which have been agreed to by the republics and provinces, are forthcoming. Where there must be some doubt as to whether the plans can be achieved is in respect of revenue from general turnover and sales taxes. This may well turn out to be lower than planned for the year as a whole, despite higher nominal expenditure, because of a change in the structure of household consumption induced by the further decline in real personal incomes, away from luxuries that are taxed at higher rates, and toward goods such as food, which are taxed at low or zero rates.

The Government is determined that any shortfall of revenue below that foreseen in the Plan for the federal budget should be met by lower expenditure rather than by additional borrowing and it is prepared to take new measures to contain expenditure, if necessary. The Federal Government borrowed



Din 4.6 billion from the National Bank of Yugoslavia in the first quarter of 1981, and there has been no further borrowing since, thus, the performance criteria relating to this category of borrowing has been met to date (Table 11).

The republics and provinces face an even more difficult budgetary task than the Federation. Revenue from turnover and sales taxes will probably be lower in nominal terms than expected, but contributions to the federal budget will be maintained, the prices of many goods and services will be higher than originally expected, and room has to be found for higher subsidies to support the price policy. It is not expected that the republics and provinces will seek to raise tax rates or take other discretionary revenue measures during the remainder of the year. They may, therefore, have to adjust expenditures to achieve balanced budgets.

f. Monetary policy and developments

The restraint of the growth of money and credit is a central part of the stabilization program. In 1980 both money and credit grew considerably less rapidly than nominal income. The stock of domestic credit was 29 per cent higher at the end of 1980 than at the end of 1979; (narrow) money supply was 23 per cent higher; and money and quasi-money together were 31 per cent higher (Table 10). However, producer and retail prices were higher by 40 per cent and 39 per cent, respectively (Table 6), and the monthly index of industrial production suggests that real output was higher at the end of 1980 than at the end of 1979. <sup>1/</sup>

The plans for 1981 envisaged that the growth of money and credit would continue to be restricted. The authorities intend to limit the increase in both money supply and domestic credit during the year to 22 per cent (Table 10). When these plans were made at the beginning of the year, it was anticipated that inflation would be considerably lower than in 1980, and that velocity would not have to rise further. The authorities established quarterly ceilings on bank credit, and these were adopted as performance criteria for the first year of the stand-by arrangement (Table 2).

Credit ceilings are seen as the main instrument for maintaining control over the growth of the monetary aggregates. The National Bank of Yugoslavia also can and does alter reserve requirements and engage in short-term lending to the commercial banks. However, these instruments are used as a means of maintaining the liquidity of the banks rather than of controlling the monetary aggregates. In 1980, for example, the minimum reserve ratio (the ratio of obligatory reserves with the National Bank of Yugoslavia to short-term assets) was reduced, despite the tight monetary policy, because the liquidity of banks was low as a result of the large withdrawal of reserve money through foreign exchange transactions (Table 11).

Despite the higher level of inflation than was expected in the first few months of 1981, the growth of money and credit in the first quarter was within the planned totals (Tables 10 and 2). The absolute decline in the net foreign

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<sup>1/</sup> Estimates of gross social product are available only for complete calendar years.

assets of the banking system was, however, greater than expected. This was partly because of the revaluation of existing assets and liabilities denominated in foreign currency as the dinar depreciated, and partly because of a further outflow of net assets. The arithmetic consequence was that money and quasi-money had to grow at well below the planned rate if domestic credit was not to breach the ceiling.

In the second quarter of 1981, domestic credit grew strongly in April and May at a rate that would have brought the increase by the end of June above the ceiling included in the stand-by arrangement. In the light of these developments the National Bank asked the commercial banks to lower the rate of credit extension in June, which they duly did. As a result, net domestic assets of the banking system on June 30, 1981 were below the ceiling (Table 2).

After declining over a number of years to 3.17 in 1978, the velocity of narrow money rose in two years by 18 per cent to 3.73 in 1980 (Table 13). It has risen further since then, and may now be close to 4.0. Only a part of this rise represents a tightening of monetary conditions. There has been a voluntary switch by the household sector out of narrow money into other assets, especially foreign currency deposits, which are included in quasi-money. The velocity of circulation of broad money (gross social product divided by the sum of narrow money and quasi-money) increased by only 3 per cent between 1978 and 1980.

Although part of the increase in velocity represents a switch of private deposits into foreign exchange accounts and only part represents a real tightening of the monetary situation of enterprises, the latter are under some pressure to adjust, by cutting back on investments or current production, and becoming more efficient. There is some evidence that investment has been reduced considerably: payments for investment expenditure in the first four months of 1981 were only 19 per cent higher in nominal terms than in the same period last year. Partly because of this, short-term credit to enterprises has grown more rapidly than long-term credit: for the year to the end of March 1981, short-term bank credit grew by 37.6 per cent, while long-term bank credit grew by 27.1 per cent. This may also be a reflection of difficult liquidity problems that enterprises were facing, although the large price rises in the first few months of 1981, unaccompanied by similarly large wage rises, were an offsetting factor. Enterprises have also been able to avoid some of the potential problems of a shortage of credit from the banking system by increasing trade credit. This grew at 49 per cent during 1980, compared with 29 per cent for total bank credit, and 31 per cent for bank credit (including securities) extended to enterprises. (Estimates of trade credit since the end of 1980 are not available.)

These various pieces of evidence, together with information of a more anecdotal kind, do not suggest that the policy of credit restraint has, in the aggregate, been very burdensome so far. However, there is evidence to suggest that the tightness of monetary conditions varies considerably between enterprises and especially as between regions, with some regions such as Kosovo being under much more strain than in more developed republics. As for the remainder of 1981, much depends on what happens to prices. On the

assumption that prices grow at about 14 per cent at an annual rate over the second half of the year, which is in line with price policy, and output at 3 per cent at an annual rate, then velocity would not rise any further and should fall, since money supply is planned to grow at over 20 per cent at an annual rate.

Nominal interest rates charged and paid by the central bank and the commercial banks remained approximately steady during the first half of the year at the levels that have prevailed since 1977 (Table 14). Thus, real interest rates have become increasingly negative. The authorities wish to institute a more active interest rate policy, and they said in the letter of intent that higher nominal interest rates would be introduced in 1981 as a first step in the process of achieving positive real interest rates. There have been discussions in the Government and the bankers' association, but no decisions have yet been taken about possible changes.

At the time of the discussions it seemed probable that relatively soon the National Bank of Yugoslavia would raise its discount rates to make borrowing by the commercial banks more expensive, with the expectation that the latter would raise their own lending rates and make them significantly less negative in real terms. However, although the National Bank's interest rates would increase by varying proportions (with a maximum increase of 200 per cent), the absolute levels would still remain quite low, with the highest rate perhaps only 10 per cent. In these circumstances some commercial bank lending rates could rise to between 15-20 per cent. Whether this would represent a positive real rate of interest would depend on the success achieved in reducing the rate of inflation. In the most favorable circumstances a positive rate might be achieved but it would be only with respect to the highest rate of interest since rates for the many borrowers in priority sectors would probably remain below 15 per cent. In any case, the limited extent of positive real interest rates would be temporary if the period of price controls in the second half of 1981 were followed by a higher rate of inflation in 1982.

## 2. The external sector

The current account deficit in 1980 amounted to US\$2,291 million (3.6 per cent of GSP)(Table 15), moderately greater (by US\$91 million) than estimated when the existing stand-by program was formulated. However, the current account deficit with the convertible currency area was substantially larger (by US\$324 million) than earlier estimated. Following the sharp increase in oil prices, the value of oil imports from the nonconvertible currency area, which accounts for half of Yugoslavia's total oil imports, rose considerably in 1980, and there was a significant shift in the share of exports of goods and services from the convertible to the nonconvertible area so as to limit the imbalance under bilateral accounts. With regard to the capital account, net inflows of long-term capital in 1980 were substantially higher than estimated, which enabled a smaller than planned recourse to compensatory borrowing and also helped to moderate the increase in short-term indebtedness compared with earlier estimates.

For 1981 the authorities expect to contain the current account deficit to the program target of US\$1.8 billion (2.8 per cent of GSP). Export performance, particularly to the convertible currency area, was weak during the first two months of the year partly due to certain temporary factors, such as the timing of ship deliveries, as well as to delays in arranging for necessary imports of raw materials. However, export growth has picked up in recent months and for the year as a whole the authorities now envisage an export level only 1 per cent below the original forecasts. Based on performance in more recent months, exports to the convertible currency area are projected to expand by 18 per cent during the second half of 1981 in contrast to the slight decline in the first half (Table 16). With oil prices expected to decline or remain stable in the coming months, and the position with regard to indebtedness on bilateral accounts having shown improvement during late 1980 and early 1981, the need to accelerate exports to the non-convertible currency area has decreased, which should increase the availability of exports for convertible markets. The authorities remain committed to export promotion, particularly to the convertible currency area. Measures in support of this policy include exchange rate policy, provision of preferential export credits, and ensuring adequate supplies of imported inputs. A prompt resolution of the issue of the EC quota for Yugoslav beef exports following the accession of Greece to the EC would help also to boost exports. Import growth has also accelerated during recent months after declining in the first two months of the year, and stocks of raw material imports have reportedly accumulated. A marked deceleration in import growth is expected during the second half of the year mainly because of the drawdown of these stocks and a deceleration of import price increases. With imports expected to be close to the original projection and exports some US\$125 million lower, the deterioration in the trade balance is expected to be offset by higher invisible receipts. Such receipts, particularly from workers' remittances and tourism, were buoyant during the first half of the year, and may well exceed the revised official projection for the year by a significant margin. <sup>1/</sup> This would enable a somewhat higher import result during the second half of the year consistent with the projected trend of production and exports, and still permit the target for the current account deficit to be met.

Although the outcome for total trade in 1981 is not expected to be greatly different than originally projected and although exports to the convertible area have recovered in recent months, the division of trade between the two areas is now forecast to be significantly different than originally expected. Thus exports to the nonconvertible area are now forecast to increase by 32 per cent in 1981 and imports from that area by 35 per cent. For the convertible area the corresponding increases are 7 per cent and 1 per cent. Insofar as the shift in trade reflects higher prices of raw material imports (especially oil) from the nonconvertible area and the need to have a

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<sup>1/</sup> It might be noted that receipts from invisibles in the first half of 1981 were very much higher than in the first half of 1980. However, receipts in the latter period were affected by the uncertainties associated with the death of President Tito.

degree of balance in trade with the area, <sup>1/</sup> the trends may be inevitable. However, there is some evidence that the rapid growth of exports to this area is associated with the greater ease of selling there relative to selling in the convertible area and also to the fact that prices obtained in the nonconvertible area tend to be higher. At the same time, imports of intermediate and finished goods tend to be made at higher cost and in some cases at lower quality. As mentioned above, the authorities are aware of the problems and it is their aim to encourage a faster growth of exports to convertible markets.

The main changes incorporated in the latest projections for the capital account in 1981 comprise a reduction of about US\$200 million in drawings on long-term capital mainly reflecting a correction for the earlier overestimation of suppliers' credits for capital equipment, and a lower level (by US\$150 million) of compensatory borrowing (Table 15). As a result, net short-term capital outflows (including errors and omissions) are forecast to be less than originally expected but will still enable a substantial reduction in outstanding short-term debt. Within the foreign borrowing program, the National Bank of Yugoslavia has raised the amount of financial credits that it seeks to obtain from US\$800 million to US\$1.1 billion; negotiations with potential lenders have been stepped up in recent months. The level of gross international reserves (with 1.856 million fine ounces of gold valued at SDR 35 per ounce) fluctuated over the first six months of 1981 and on June 30 they totaled US\$1,514 million compared with US\$1,462 million at the end of 1980 (Table 21).

External disbursed debt (including short-term), which totaled US\$18.4 billion at the end of 1980, is projected to increase by about 10 per cent in 1981 or by less than half the rate of increase in the previous year (Table 22). The projected deceleration mainly reflects a significant reduction in outstanding short-term debt. Debt service payments on medium- and long-term debt in convertible currencies are projected at 21 per cent of exports of goods and services in 1981 (Table 23). Developments in the debt service ratio in the remainder of the program period will depend on the amount and terms of new borrowing and on trends in interest rates, the latter being particularly difficult to forecast. However, on the assumption that interest rates will be somewhat less than at present, the debt service ratio should rise by about 2 percentage points in 1982 and decline slightly in 1983.

After operating flexibly over the two previous years, exchange rate policy was not very active during the first half of 1981. The present exchange rate arrangements permit the National Bank of Yugoslavia to adjust the exchange rate as long as the nominal effective exchange rate of the dinar, in terms of a basket of 11 convertible currencies weighted by their share in total payments, remains within a band of 8 per cent on either side of a base rate established by the Federal Executive Council. On February 9, 1981, the Council gave approval for the effective exchange rate to be changed

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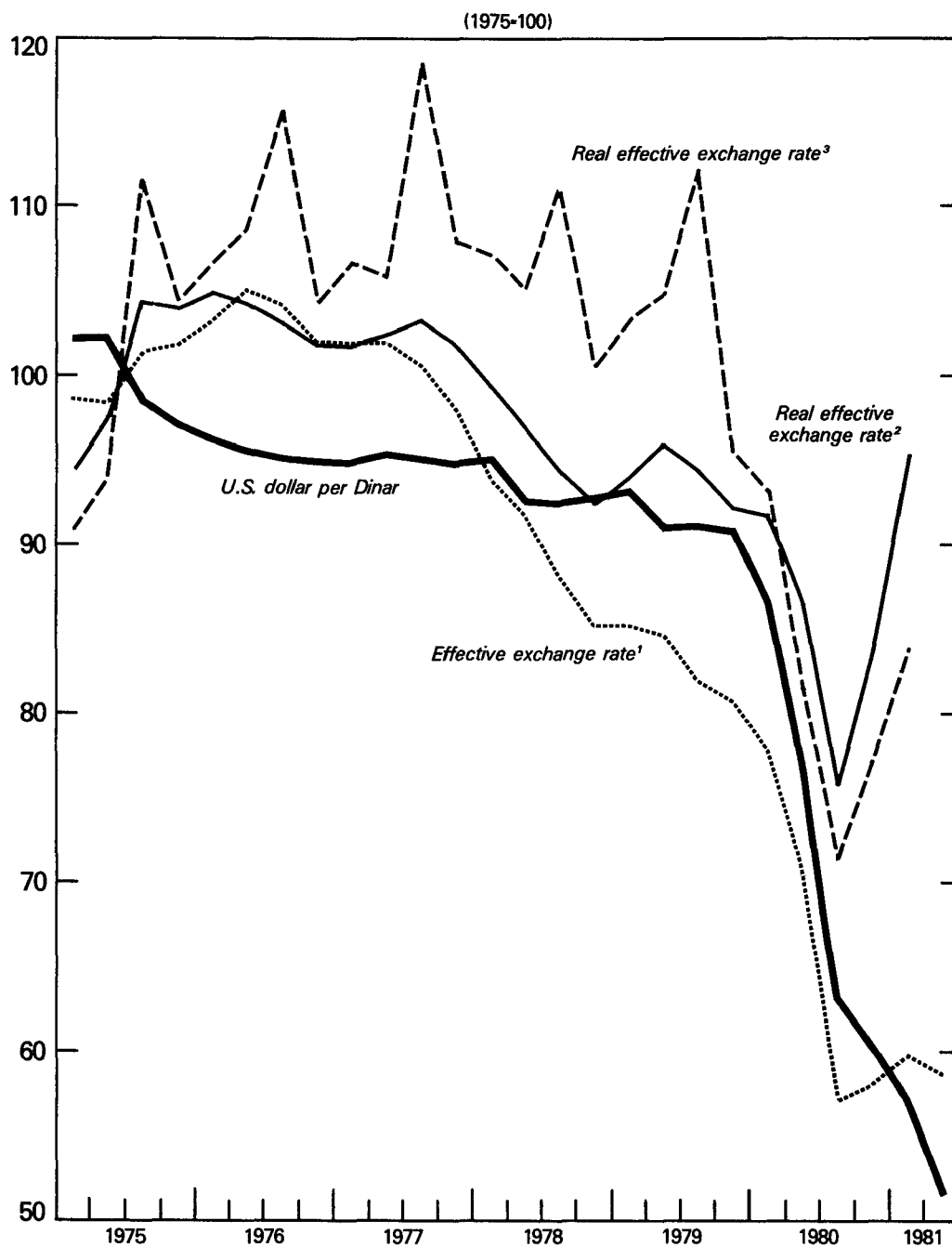
<sup>1/</sup> The trade balance with the nonconvertible area is against Yugoslavia but is partly matched by a surplus on net invisibles, especially from tourism and transportation. In addition, Yugoslavia has been a net borrower from the nonconvertible area, within limits acceptable to the trading partners.

by up to 8 per cent on either side of the rate prevailing on that date (the dinar/dollar rate on that date was Din 29.48 per U.S. dollar). Subsequently, the nominal effective exchange rate of the dinar was depreciated by 8 per cent during the first half of 1981, which was insufficient to compensate for the marked deterioration in Yugoslavia's price performance in relation to its partners. As a result, the real effective exchange rate (based on the official basket) is estimated to have appreciated by over 8 per cent during the first half of 1981 and had reverted to the level prevailing before the June 1980 devaluation. Table 24 and Chart 1 provide measures of the export and import trade-weighted effective exchange rates adjusted for relative wholesale prices and for relative unit labor costs. These measures also indicate that the competitive gains from the June 1980 devaluation have been eroded. While recognizing the importance of maintaining the competitiveness of the economy, the authorities have been concerned about the impact of a large depreciation on domestic prices. They have, therefore, opted to follow a policy of gradual depreciation. In July, the Federal Executive Council approved an additional 8 per cent margin within which the nominal effective exchange rate could be changed. The authorities hope that measures on domestic prices together with action on the exchange rate would end the year without any significant net loss in competitiveness compared with the beginning of the year.

With regard to the exchange and trade system, a liberalization of import restrictions was undertaken in April. More than 1,000 items were shifted from the restricted import commodity lists to the liberalized (LB) list, while only 19 items were shifted from the LB to the restricted lists. The items liberalized affected many different types of commodities including agricultural products, raw materials, and consumer goods. As a result of these changes, in terms of numbers of items, the share of liberalized items in the total rose from 60 per cent to 78 per cent. In value terms, the share of items in the LB list is estimated to have risen by about 15 percentage points. The authorities indicated that the import liberalization was a first step toward the objective of opening up trade with foreign countries as specified in the Social Plan. On the export side, licensing requirements on 41 items were removed and 26 items were made subject to licensing; the latter commodities mainly comprised agricultural and mineral products in short local supply.

In July 1981, a limitation was placed on the amount of bank notes that could be exported from or imported into Yugoslavia. Previously an amount of Din 1,500 was permitted for each trip but now such an amount is permitted on one trip only each year. The authorities do not believe that this limitation reduces the tourist possibilities for Yugoslavia residents since, although foreign exchange for travel cannot be bought with dinars, residents can freely purchase travel arrangements in Yugoslavia for dinars, for example, tickets and group tours, and can export foreign exchange obtained from foreign exchange accounts. The limitation should, however, sharply reduce the illegal export of banknotes, which were either used to buy illegal imports, principally of consumer goods, or sold abroad at discounted prices to foreign tourists, which resulted in a loss of foreign exchange to the Yugoslav foreign exchange market. The measure is temporary and is to be reviewed before the end of

CHART 1  
YUGOSLAVIA  
EXCHANGE RATE INDICES



Sources: IMF, *International Financial Statistics*; and staff estimates.

<sup>1</sup> Index of trade-weighted foreign exchange rate of the dinar. Weights are based on import and export shares in trade with convertible currency countries.

<sup>2</sup> Effective exchange rate adjusted for changes in Yugoslav wholesale prices relative to a weighted-average of wholesale prices in major convertible currency trading partners.

<sup>3</sup> Effective exchange rate adjusted for estimated changes in Yugoslav unit labor costs in manufacturing relative to a weighted average of unit labor costs in major convertible currency trading partners.





1981. Fund approval of the measure until March 31, 1982 or the time of the next Article IV consultation, whichever is the earlier, was granted on August 5, 1981.

For some time, broken cross rates existed in the Yugoslav exchange market and with the strength of the dollar in the spring of 1981 the breaks became quite marked. This was because the National Bank of Yugoslavia had permission to depreciate the weighted effective exchange rate by only 8 per cent. In practice, the dinar/dollar rate was depreciated by some 16 per cent but to remain within the above limit of 8 per cent without broken cross rates the National Bank would have been obliged to appreciate against the main European currencies, which the authorities believed inappropriate, or to depreciate much more sharply against the dollar by establishing a new base rate, which they did not wish to do because of domestic price considerations. In practice, they either left the exchange rate against the European currencies unchanged or depreciated moderately against them. In early August, after a new base rate had been established, the rate against the U.S. dollar was depreciated further to an extent that has eliminated the broken cross rates.

### 3. Performance criteria

Table 2 sets out the quantified performance criteria established for the program during 1981. As shown in the table, all these performance criteria were met on March 31 and June 30, 1981.

As noted earlier, the tightening of regulations governing the export and import of dinar banknotes constituted an intensification of an exchange restriction. Temporary approval of the restriction and a waiver under the stand-by arrangement was granted on August 5, 1981 (EBS/81/161, 7/31/81).

The stand-by arrangement provides in effect that no purchases can be made after December 31, 1981 until performance criteria have been established in consultation with the Fund governing performance in 1982. It is expected that the staff will discuss the 1982 program with the Yugoslav authorities in the final quarter of 1981 and that Board discussion on the program and the performance criteria will take place in early 1982.

## III. Staff Appraisal

In the crucial area of the balance of payments, developments in the first half of 1981 suggest that the target for the current account deficit of US\$1.8 billion for 1981 as a whole should be achievable. After a disappointing start, exports have accelerated and for the year as a whole the trade deficit should not be far off target. Any shortfall should be balanced by higher net receipts from invisibles. However, the achievement of the current account target will be accompanied by a quite sharp shift in the direction of trade away from the convertible area.

In the staff view, corrective action should be taken to support a faster growth of exports to the convertible area since in the longer run the demand

for high quality imports from this source will continue to increase. There are some special reasons for the shift away from the convertible area, including the fact that a significant part of oil and other raw material imports come from the nonconvertible area. The cost of these imports has risen faster than average, and this in turn forces a diversion of exports to the nonconvertible area, since trading partners there are unwilling to finance deficits beyond agreed limits. However, there is evidence to suggest that the poor performance of exports to convertible markets is partly a result of difficulties in selling in these markets for reasons of both price and quality and because insufficient efforts are made to sell in these competitive markets. The position has not been helped by the adverse movement in the real effective exchange rate in late 1980 and the first half of 1981. The real effective exchange rate has now gone back to somewhat above the level ruling prior to the devaluation of June 1980. While recognizing the need for a more active exchange rate policy, the authorities have indicated a preference for gradual depreciation during the second half of 1981 in order to avoid a sharp increase in import prices. The staff can appreciate the concern of the authorities but believe that, from the point of view of the balance of payments adjustment, it is essential that competitiveness is maintained by adequate and timely correction of the exchange rate.

Domestic growth appeared to stagnate in the first two months but subsequently it recovered and the increase in real output for the year as a whole is likely to be close to target. Trends in aggregate real expenditure are also broadly in line with initial projections, although expenditure on consumption and fixed investment appears to have been below trend and investment in stocks above. Buoyant workers' remittances might have raised the growth of private consumption above forecast levels, but continued restraint in the growth of personal income payments more than offset this influence so that real wages will fall for the second year in a row.

Price performance in the first half of 1981 was disappointing. The sharp increase in prices in the first months of the year has abated and the authorities believe that the implementation of price controls in the second half of 1981 will permit the original price targets to be achieved without reducing enterprise profits below desirable levels. Such an outcome depends greatly on the success with which enterprises contain the rise in their costs, especially labor costs. The staff also believes that the strict price controls now in force should be lifted as soon as possible, since if they are continued for any length of time there would be a risk of serious distortions developing as well as a danger of a surge in prices when the controls were eventually relaxed.

Despite a rate of inflation much higher than forecast, the authorities were able to keep to the original monetary targets because the velocity of circulation rose much more than originally expected. In retrospect it seems clear that the degree of monetary constraint at the end of 1980 was not as great as either the authorities or the staff had earlier believed. It proved possible for velocity to increase sufficiently to permit planned levels of output growth despite a significantly lower than planned level of real money supply. In the second half of the year, the balance of payments will be seasonally strong and the rate of inflation should drop sharply. In these

circumstances, it should be possible to remain within existing credit ceilings without prejudicing the planned growth of output. Liquidity may become particularly tight in some sectors of the economy and some regions of the country, but in the staff view the solution to such problems, should they become acute, would be a redistribution of planned credit increases rather than an across-the-board increase in total credit.

There appears to be a welcome degree of fiscal restraint at all levels of government. Indeed, the determination to remain within nominal expenditure estimates in the face of accelerated inflation and to refrain from additional borrowing from the banking system is likely to lend to lower levels of real expenditure than originally planned.

Changes in interest rate policy have been much slower to develop than originally hoped for and expected. It appears that higher nominal interest rates will not be in place for practical purposes until the final months of the year and it remains to be seen how high they will be. The new level of rates will need to be judged against the inflation rate expected over a period of time, rather than against the rather low rate expected to be recorded in the second half of 1981. As it has said on past occasions, the staff is convinced that the arguments favoring positive real interest rates are overwhelming. The staff believes therefore that further steps are desirable in 1982 over and above those being considered for 1981 to ensure that interest rate policy stimulates domestic savings and assists in the appropriate allocation of investment funds.

Table 2 . Yugoslavia: Quantitative Performance Criteria  
under Stand-By Arrangement for 1981

	Levels		Cumulative Changes from December 31, 1980 to:			
	December 31, 1980 Estimated	Actual	March 31 1981	June 30 1981	Sept. 30 1981	Dec. 31 1981
Net domestic assets of the banking system (in billions of dinars)						
Ceiling			96.0	179.0	259.0	345.0
Actual	1,538.0	1,554.6	90.0	178.6		
Net credit of the National Bank to the budget of the Federation (in billions of dinars)						
Ceiling			4.6	4.6	4.6	4.6
Actual	77.9	78.7	4.6	4.6		
Net convertible foreign assets of the National Bank 1/ (in millions of U.S. dollars)						
Ceiling			-150.0	-350.0	-550.0	-750.0
Actual	...	...	-126.0	-338.0		
Cumulative change in convertible currency debt outstanding 2/ (in billions of U.S. dollars)						
Ceiling			...	...	...	1.7
Actual	14.1	14.3		0.9		

Source: Data supplied by the Yugoslav authorities.

- 1/ Excludes medium- and long-term borrowing by the National Bank of Yugoslavia other than purchases from the Fund, and net of the increase in compensatory borrowing by commercial banks.
- 2/ Increase in debt outstanding in convertible currency with original maturities of more than one year. Includes borrowing by the National Bank of Yugoslavia other than purchases from the Fund. Excludes increases in compensatory borrowing by commercial banks.

Table 3. Yugoslavia: National Accounts, 1/ 1977-85

(Percentage change at constant prices)

	1980	1977	1978	1979	1980	1981	1981-85 Plan
	In billions of dinars; at current prices	Actuals				Plan 2/	average 3/
Private consumption	803.0	7.0	7.0	6.0	0.3	2.5	3.0
Public consumption 4/	136.5	7.4	5.3	7.9	1.6	0.8	3.3
Gross fixed capital formation	536.6	11.7	13.4	4.6	-1.6	-4.8	1.6
Gross domestic expenditure	1,657.6	11.7	4.8	9.5	0.5	---	2.6
Exports: goods and services	360.3	-4.4	-1.9	3.4	7.9	7.0	8.0
Imports: goods and services	456.9	12.5	-1.3	9.8	-10.4	-3.0	1.1
Gross social product	1,562.0	8.0	6.8	7.0	2.2	3.2	4.5
Memorandum item:							
Gross social product deflator	...	14.7	15.0	20.7	31.3	...	14.4

Source: Data supplied by the Yugoslav authorities.

1/ Based on material product national income accounting according to Yugoslav methodology, which excludes services rendered to individuals from the gross material product. Gross domestic product is estimated to be about 15 per cent higher than gross social product for 1980.

2/ Annual Plan resolution for 1981.

3/ Annual average percentage growth rate over the five-year period 1981-85.

4/ Includes material costs of general and collective consumption only. In particular, it excludes personal income payments.

Table 4. Yugoslavia: Gross Social Product by Sector <sup>1/</sup>

(Percentage change at constant prices)

	1980					1981-85 Plan average <sup>3/</sup>
	Level at current prices; in bil- lions of dinars estimated					
	1978	1979	1980	1981	Plan <sup>2/</sup>	
Actual						
Manufacturing and mining						
Of which:						
Energy	568.0	8.6	7.9	4.4	4.0	5.0
Basic metals	74.0	4.7	6.5	6.4	6.0	7.1
Equipment and consumer durables	49.0	8.5	3.1	2.6	3.0	7.0
Nonmetallic minerals and construction material	147.0	12.5	9.7	3.5	2.6	4.6
Chemicals	35.0	9.6	7.4	5.6	4.7	5.7
Other	55.0	14.1	8.2	9.2	5.8	7.3
	208.0	5.7	8.2	3.6	4.1	4.2
Agriculture, forestry, and fishing	191.0	-4.6	5.3	-1.8	3.9	4.3
Trade and catering	362.9	9.8	6.1	3.0	3.6	4.8
Construction	166.0	11.5	9.7	4.0	-2.6	1.0
Transport and communications	136.5	10.2	4.2	4.0	4.3	5.0
Crafts and others <sup>4/</sup>	137.6	6.6	5.2	4.2	4.0	5.5
Total	1,562.0	6.8	7.0	3.1	3.2	4.5

Source: Data supplied by the Yugoslav authorities.

<sup>1/</sup> Based on material product national income accounting according to Yugoslav methodology, which excludes services rendered to individuals from the gross material product. Gross domestic product is estimated to be about 15 per cent higher than gross social product.

<sup>2/</sup> According to targets in annual resolution for the realization of the five-year plan in 1981.

<sup>3/</sup> Projected annual average growth rate over the five-year period 1981-85.

<sup>4/</sup> Includes public utility production.

Table 5. Yugoslavia: Gross Fixed Investment by Sector 1/  
(Percentage share in total)

	1971-75	1976-80	1981-85
Total fixed investment	100.0	100.0	100.0
Of which:			
Productive sector	<u>73.7</u>	<u>70.0</u>	<u>72.0</u>
Industry and mining	36.2	37.9	40.1
Agriculture and fishing	6.7	4.2	4.6
Forestry	0.7	0.8	0.5
Water management	...	0.5	0.8
Construction	2.5	4.6	4.1
Transportation and tele- communications	13.0	8.5	9.3
Trade	8.6	4.1	3.3
Catering and tourism	...	2.4	2.8
Handicrafts	1.4	0.6	0.7
Public utilities	3.7	3.9	4.1
Financial and other services	...	2.5	1.7
Nonproductive sector	<u>26.3</u>	<u>30.0</u>	<u>28.0</u>
Housing	15.3	19.1	21.9
Education and culture     )		3.7	
Health and social services)	7.3	2.8	4.1
Socio-political organizations	3.7	4.4	2.0
Memorandum item:			
Energy sector	8.2	12.4	15.3

Source: Data supplied by the Yugoslav authorities.

1/ Sectoral classification for the period 1971-75 plan period differs from that for 1976-80. Investment in agriculture in 1971-75 includes water management and social activities (health, insurance, education and culture) for the sector. Information on investment in the financial and other services is only available since 1977.

Table 6. Yugoslavia: Twelve-Monthly Changes in Price Indices

(Percentage changes over 12 months to end of period)

	1977	1978	1979	1980	1981 <u>1/</u>
Producers' prices					
Industrial goods	9.8	8.9	14.9	39.8	49.9
Investment goods	10.5	5.1	5.3	22.2	26.0
Semifinished goods	9.4	9.8	17.8	46.7	55.0
Consumption goods	10.0	8.5	13.1	33.7	47.4
Agricultural goods	5.7	12.6	23.6	46.5	43.8 <u>2/</u>
Retail prices					
General index	14.0	15.7	23.9	39.2	52.6
Agricultural goods	13.3	14.0	25.8	42.2	46.0
Industrial goods	14.5	16.5	24.0	41.7	57.1
Services	15.0	14.3	24.0	24.3	29.9
Cost of living					
General index	14.1	15.8	23.0	37.3	46.5
Food	14.1	14.1	22.7	40.3	50.2
Clothing	15.1	17.6	22.2	29.1	36.6
Rent	12.7	16.1	18.7	25.7	25.0
Services	14.7	14.0	21.6	22.7	27.0

Sources: Indeks; and data supplied by the Yugoslav authorities.

1/ May of 1981, compared with May 1980.

2/ Preliminary figure for March 1981 compared with March 1980.



Table 7. Yugoslavia: Net Personal Income per Employee by Sector

	Dinars per month					Annual percentage change				
	1977	1978	1979	1980	1981 Jan.-March 1/	1977	1978	1979	1980	1981 Jan.-March 1/2/
Manufacturing, mining, and quarrying	3,927	4,732	5,688	6,955	8,377	17.7	20.5	20.2	22.2	36.3
Agriculture and fishing	3,921	4,494	5,316	6,616	8,126	13.1	14.6	18.3	24.5	43.9
Forestry	3,863	4,599	5,665	7,087	8,432	22.4	19.1	23.2	25.1	41.2
Construction	4,090	4,927	5,911	7,022	7,524	18.1	20.5	20.0	18.8	25.6
Transportation and communications	4,478	5,410	6,551	7,904	9,141	18.2	20.8	21.1	20.6	31.0
Trade	4,135	5,004	6,102	7,174	8,292	22.3	21.0	21.9	17.6	30.8
Catering and tourism	3,530	4,319	5,203	6,365	7,338	16.6	22.4	20.5	22.3	33.6
Arts and crafts	4,268	5,231	6,399	7,741	9,128	22.4	22.6	22.3	21.0	32.8
Housing and public utilities	4,115	5,005	6,065	7,275	8,337	19.8	21.6	21.1	20.0	29.2
"Noneconomic" sector	<u>4,865</u>	<u>5,923</u>	<u>7,078</u>	<u>8,428</u>	<u>9,533</u>	<u>19.7</u>	<u>21.7</u>	<u>19.5</u>	<u>16.5</u>	<u>26.6</u>
Total socialized sector	4,198	5,075	6,113	7,368	8,580	18.7	20.9	20.5	21.5	32.1

Source: Data supplied by the Yugoslav authorities.

1/ Preliminary data.

2/ Compared with the corresponding months of 1980.

Table 8. Yugoslavia: Summary of Federal Government  
and Public Sector Budgets

(In billions of dinars)

	1976	1977	1978	1979	1980 <u>1/</u>
Federal Government					
Revenues	64.9	80.0	72.6	93.6	109.4
Expenditures	75.5	89.0	77.8	97.3	129.7
Of which:					
Transfers to other govern- mental units	(5.4)	(6.1)	(7.0)	(10.5)	(14.3)
Transfers to funds and com- munities of interest	<u>(9.6)</u>	<u>(10.4)</u>	<u>(13.8)</u>	<u>(14.8)</u>	<u>(18.7)</u>
Surplus or deficit	-10.6	-9.0	-5.2	-3.7	-20.3
Consolidated public sector <u>2/</u>					
Revenues	241.4	304.7	384.3	470.7	587.6
Expenditures	<u>253.3</u>	<u>311.9</u>	<u>389.3</u>	<u>469.8</u>	<u>598.3</u>
Surplus or deficit	-11.9	-7.2	-5.0	0.9	-10.7
Financing					
External, net	-1.5	-0.1	-0.1	--	--
Domestic, net	13.4	7.3	5.1	-0.9	10.7

Source: Data supplied by the Yugoslav authorities.

1/ Preliminary.

2/ Excluding grants and transfers between different parts of the public sector.

Table 9. Yugoslavia: Budget of the Federation

(In millions of dinars)

	1979	1980	1981		
			Revised plan	Outturn: first five months	First five months as percentage of plan
<b>Revenue</b>					
Customs duties and other import fees	24,591	20,694	24,137	9,491	39.3
Contributions from republics and provinces	28,436	38,469	63,773	17,627 <sup>1/</sup>	27.6 <sup>1/</sup>
General turnover and sales taxes	37,700	47,400	73,377	21,146	28.8
Other taxes	169	230	230	97	42.2
Nontax revenues	<u>2,681</u>	<u>2,501</u>	<u>2,850</u>	<u>1,118</u>	<u>39.2</u>
Total revenue	93,577	109,354	164,367	49,479	30.1
<b>Expenditure</b>					
Administration	15,621	18,574	20,680	7,755	37.2
Defense	55,084	76,149	101,894	29,586	29.0
Grants to republics and provinces	10,502	14,258	16,277	5,426	33.3
Grants to funds and communities of interest	14,794	18,700	25,237	9,149	36.2
Investment	674	818	874	--	--
Other or discrepancy	<u>618</u>	<u>1,173</u>	<u>1,536</u>	<u>1,171</u>	<u>76.2</u>
Total expenditure	97,293	129,672	166,498	53,087	31.9
Surplus or deficit	-3,716	-20,318	-2,131	-4,608	
<b>Financing, net domestic</b>	<u>3,716</u>	<u>20,318</u>	<u>2,131</u>	<u>4,608</u>	
Bond issues	--	13,344	--		
National Bank credits	8,451	9,200	4,600	4,600	
Repayment of bank credits	-1,678	-726	-1,979	-1,759	
Bond amortization	-2,857	-1,264	-205	-117	
Allocation to budgetary reserves	-200	-236	-285	1,884	

Source: Data supplied by the Yugoslav authorities.

<sup>1/</sup> First four months.

Table 10. Yugoslavia: Monetary Survey 1/

	Stock at end of period in billions of dollars		Percentage change during year				Percentage change from end of 1980 to end of period			
	1980	1981	1978	1979	1980	1981	1981	1981	1981	1981
	March	June				Plan 2/	March	March	June	June
							Actual	Plan 2/	Actual	Plan 2/
Net foreign assets 3/	-257.3	-283.2	...	138.6	235.3	129.7	23.7	10.1	7.2	23.5 4/12.4
Domestic credit 5/	1,554.6	1,644.8	1,733.2	29.5	26.7	29.4	22.4	5.8	6.2	11.5 11.6
Money supply 6/	461.6	477.2	505.4	25.5	19.0	23.0	21.9	3.4	4.1	9.5 9.0
Quasi-money 7/	785.5	827.6	...	33.5	28.5	36.4)				
Other items, net	50.2	56.8	...	16.6	-5.7	-63.7)	21.7	5.8	6.9	10.0 4/12.4

Sources: Data supplied by the Yugoslav authorities; and for 1978 and 1979, SM/80/120 (5/27/80), Table 23.

1/ The definition of the banking sector covered by these estimates varies between series and years. A broad definition, including the post office savings bank and the fund for financing trade, is used for money supply in all years, and for quasi-money since 1979. A narrow definition excluding these two institutions is used for domestic credit in all years, and for quasi-money up to 1979. Net foreign assets are the same under the two definitions. Other items, net, is a residual and absorbs the (small) adjustment arising from the use of inconsistent definitions in the same year.

2/ These percentages are based on the estimates of the end-December 1980 stocks that were available in January 1981. They should not be applied to the actual stock figures.

3/ The positive rates of change shown in this row indicate that net foreign assets, which have been negative throughout this period, were becoming increasingly negative.

4/ Based on comparison of May 1981 actual with end-1980 actual.

5/ Comprises bank loans extended in both dinars and foreign currencies to domestic clients, and investment in securities.

6/ Includes government deposits and excludes items in transit.

7/ Comprises foreign exchange deposits of residents, other sight deposits, time deposits, restricted deposits, securities issued by banks, and claims on banks in respect of pooled resources.

Table 11. Yugoslavia: Sources and Uses of Reserve Money

(In billions of dinars)

	1979	1980				1981
		End of period				I
		I	II	III	IV	
<b>Sources</b>						
National banks' credits to:						
Other banks	275.0	285.4	316.4	390.6	423.5	433.2
Federal government	43.0	92.1	90.4	102.8	125.1	120.3
Other 1/	10.1	16.4	20.2	19.9	19.3	23.9
Foreign assets (net)	221.9	176.9	205.8	267.9	279.1	289.0
Reserve money issue	-18.6	-30.3	-45.8	-53.9	-68.9	-79.6
Less deposits of nonbank sectors with the National Bank	256.4	255.1	270.6	336.7	354.6	353.6
Reserve money	39.2	29.4	70.2	71.4	67.0	70.1
	217.2	225.7	200.4	265.3	287.6	283.5
<b>Uses</b>						
Obligatory reserves of banks	51.3	50.8	47.4	53.0	51.2	53.6
Liquid reserves of banks	5.9	6.1	4.4	6.2	9.4	6.8
Currency in circulation	90.7	95.8	105.1	106.9	116.0	110.1
Money float	11.2	14.2	12.5	22.7	15.7	25.4
Giro accounts of business banks	19.9	8.9	8.8	9.6	20.7	9.5
Short-term deposit money	14.6	15.9	14.2	13.3	14.3	19.8
Other bank deposits with the national banks 2/	9.3	5.0	5.8	4.1	5.9	7.1
Other deposits	23.3	38.6	10.8	57.4	64.1	65.9
Total	226.2	235.3	209.0	273.2	297.3	298.2
Less government deposits	9.0	9.6	8.6	7.9	9.7	14.7
Reserve money	217.2	225.7	200.4	265.3	287.6	283.5

Source: Data supplied by the Yugoslav authorities.

1/ Mainly credits to sociopolitical communities and Organizations of Associated Labor.

2/ Includes foreign exchange deposits of Yugoslav banks at the National Bank.

Table 12. Yugoslavia: Distribution of Domestic Credit By Sector

	Stock at end of period; in billions of dinars		Change during period; in billions of dinars		Percentage Share in Total		
					End-1980 stock	Change during 1980	Change during 1981
	1980	1981 March	1980	1981 Jan.-March			Jan.-March
Enterprises							
Bank credit	1,134.0	1,200.4	263.7	66.4	72.9	74.6	73.6
Securities 1/	112.5	129.2	29.8	16.7	7.2	8.4	18.5
Total	1,246.5	1,329.6	293.5	83.1	80.1	83.0	92.1
Federal Government	80.6	84.4	7.8	3.8	5.2	2.2	4.2
Other socio-political communities and social funds	22.2	22.3	2.6	0.1	1.4	0.7	0.1
Other organizations	45.6	39.8	10.1	-5.8	2.9	2.9	-6.4
Households	156.7	165.7	39.6	9.0	10.1	11.2	10.0
Unallocated	3.0	3.0	-0.3	--	0.2	--	--
Total	1,554.6	1,644.8	353.3	90.2	100.0	100.0	100.0

Sources: National Bank of Yugoslavia, Quarterly Bulletin; data supplied by the Yugoslav authorities; and staff estimates.

1/ Includes a very small amount that should be classified under other sectors.

Table 13. Yugoslavia: Velocity of Circulation 1/

1971	5.34
1972	5.04
1973	4.47
1974	6.00
1975	4.48
1976	3.51
1977	3.30
1978	3.17
1979	3.40
1980	3.73

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Source: Data supplied by the Yugoslav authorities.

1/ Gross social product divided by (narrow) money supply.

Table 14. Yugoslavia: Selected Interest Rates

(In per cent per annum)

End of period	1977	1978	1979	1980	1981 March
Central Bank rates of interest					
Rates charged by the national banks					
Official discount rate	6.0-8.0	6.0	6.0	6.0	6.0
Credits to banks for selective purposes	1.0-6.0	1.0-6.0	1.0-6.0	1.0-6.0	1.0-6.0
Credits to banks for liquidity purposes	8.0	8.0	8.0	8.0	8.0
Credits to nonbank sectors	0.001-6.0	1.0-3.0	1.0-3.0	1.0-3.0	1.0-3.0
Rates paid by the Central Bank					
Banks' obligatory reserves with the National Bank of Yugoslavia	3.0	3.0	3.0	3.0	3.0
Treasury bills issued by the National Bank of Yugoslavia	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0
Liquidity reserves of the Post Office Savings Bank	8.5	8.5	8.5	8.5	8.5
Rates of interest of commercial banks and other financial institutions					
Rates charged to borrowers					
Discount of securities					
Securities with a maturity of up to 90 days	7.24	7.42	7.53	7.42	7.33
Securities with a maturity of over 90 days	8.0	7.53	7.88	9.50	8.64
Short-term credits	9.31	9.6	8.78	9.44	9.34
Medium- and long-term credits	8.58	8.99	6.91	5.74	7.15
Long-term credits to OALs for housing construction	5.54	4.88	6.88	7.14	6.51
Credits to households					
Consumer credits	12.0	12.0	12.0	12.0	12.0
Credits for housing construction	6.54	5.21	5.57	5.68	5.78
Rates paid to lenders					
Time deposits of OALs					
Up to one year	3.42	4.55	5.09	5.69	6.70
Over one year	4.8	6.04	7.56	8.72	6.91
Deposits of households					
Savings sight deposits	7.5	7.5	7.5	7.5	7.5
Savings time deposits					
From one to two years	9.0	9.0	9.0	9.0	9.0
Over two years	10.0	10.0	10.0	10.0	10.0
Short-term interbank lending for liquidity purposes	9.76	9.65	9.93	9.33	10.25

Sources: National Bank of Yugoslavia, Quarterly Bulletin; and data supplied by the Yugoslav authorities.



Table 15. Yugoslavia: Balance of Payments, 1978-81 <sup>1/</sup>

(In millions of U.S. dollars)

	1978	1979	1980	Jan.-June 1980	1981 Est.	Latest Proj. 1981
A. Goods and services and unrequited transfers						
Exports f.o.b.	-1,283	-3,661	-2,291	-2,240	-1,848	-1,800
Imports c.i.f.	5,809	6,794	8,978	4,104	4,726	10,426
Trade balance	-10,439	-14,019	-15,064	-7,358	-8,262	-16,519
	-4,630	-7,225	-6,086	-3,254	-3,536	-6,093
Services and unrequited transfers						
Credits:						
Workers and emigrants remittances	2,950	3,393	4,050	1,820	2,250	4,455
Travel	1,130	1,183	1,645	430	530	1,900
Transportation	1,200	1,405	1,669	796	860	1,850
Interest	170	188	197	66	139	254
Other	810	1,313	1,761	547	755	2,049
Total	6,260	7,482	9,322	3,659	4,534	10,508
Debits:						
Workers and emigrants remittances	-1,280	-1,683	-2,511	-1,381	-1,285	-2,585
Travel	-128	-155	-130	-45	-60	-130
Transportation	-590	-674	-837	-380	-422	-920
Interest	-495	-821	-1,281	-470	-691	-1,661
Other	-420	-585	-768	-369	-388	-919
Total	-2,913	-3,918	-5,527	-2,645	-2,846	-6,215
Services and unrequited transfers (net)	3,347	3,564	3,795	1,014	1,688	4,293
B. Long-term capital						
Long-term loans (received)						
Drawings	2,800	2,438	3,474	1,085	1,770	3,395
Repayment	-1,300	-1,304	-1,446	-728	-962	-1,930
Long-term loans (extended)	-106	-125	-221	-167	-130	-250
Total	1,394	1,009	1,807	190	678	1,215
C. Total (A through B)	111	-2,652	-484	-2,050	-1,170	-585
D. Bilateral balances	-65	742	354	265	-70	300
E. Short-term capital including errors and omissions	-25	277	-150	930	989	-179
F. Total (A through E)	21	-1,633	-280	-855	-251	-464
G. Allocation of SDRs	--	37	37	37	38	38
H. Compensatory borrowing	350	250	71	100	50	250
I. Total (A through H)	371	-1,346	-172	-718	-163	-176
J. Reserve movements						
Use of Fund credit	-21	218	304	348	215	476
SDRs	-7	-34	41	-46	-8	...
Reserve position in the Fund	-81	81	--	--	--	...
Gold	-5	-4	-5	-5	--	...
Official foreign exchange (increase -)	-257	1,085	-168	421	-44	-300
Total	-371	1,346	172	718	163	176

Sources: National Bank of Yugoslavia; and staff estimates.

<sup>1/</sup> Data on 1981 projections and on capital account converted on statistical exchange rate basis.

Table 16. Yugoslavia: Balance of Payments  
(Convertible Currency Area), 1978-81 <sup>1/</sup>

(In millions of U.S. dollars)

	1978	1979	1980	Jan.-June		Latest
				1980	1981	Proj.
					Est.	1981
A. Goods and services and unrequited transfers	-1,272	-3,304	-2,204	-1,944	-1,912	-1,500
Exports f.o.b.	3,971	4,766	5,656	2,860	2,789	6,079
Imports c.i.f.	-8,373	-11,336	-11,321	-5,715	-6,258	-11,478
Trade balance	-4,402	-6,570	-5,666	-2,055	-3,469	-5,399
Services and unrequited transfers (net)	3,130	3,266	3,462	911	1,557	3,899
B. Long-term capital						
Long-term capital received						
Drawings	2,430	2,188	3,228	964	1,650	3,195
Repayments	-1,200	-1,169	-1,258	-656	-877	-1,780
Long-term loans extended	-97	-123	-235	-175	-120	-265
Total	1,133	896	1,735	133	653	1,150
C. Total (A + B)	-139	-2,408	-469	-1,811	-1,259	-350
D. Short-term capital including errors and omissions excl. Item G	160	775	189	956	1,008	-114
E. Total (A through D)	21	-1,633	-280	-855	-251	-464
F. Allocation of SDRs	--	37	37	37	38	38
G. Compensatory borrowing	350	250	71	100	50	250
H. Total (A through G)	371	-1,346	-172	-718	-163	-176
I. Reserve movements						
Use of Fund credit	-21	218	304	348	215	476
SDRs	-7	-34	41	-46	-8	...
Reserve position in the Fund	-81	81	--	--	--	...
Gold	-5	-4	-5	-5	--	...
Official foreign exchange (increase -)	-257	1,085	-168	421	-44	-300
	-371	1,346	172	718	163	176

Sources: National Bank of Yugoslavia; and staff estimates.

<sup>1/</sup> Data on 1981 projections and on capital account converted on statistical exchange rate basis.

Table 17. Yugoslavia: Foreign Trade Indicators  
(Percentage change over previous year, in terms of US\$)

	1976	1977	1978	1979	1980	Proj. 1981
Exports						
Value	16.7	8.0	11.9	16.9	32.1	16.1
Volume <u>1/</u>	15.2	-2.7	2.7	1.6	11.0	7.5
Price	4.0	11.0	9.0	15.0	19.0	8.0
Imports						
Value	-7.4	32.5	6.6	34.3	7.4	9.7
Volume <u>1/</u>	-10.1	16.6	1.5	12.9	-10.5	1.1
Price	3.0	13.6	5.0	19.0	20.0	8.5
Terms of trade	1.0	-2.6	3.8	-4.3	-1.0	-0.5

Sources: Data supplied by the Yugoslav authorities; IMF, International Financial Statistics; and staff calculations.

1/ Derived from value data converted at current exchange rates and price indices reported to IFS.

Table 18. Yugoslavia: Commodity Composition of Foreign Trade

	Exports				Imports			
	Percentage Share of Total		Per cent Change Over Previous Year 1/		Percentage Share of Total		Per cent Change Over Previous Year 1/	
	1979	1980	1981 2/	1980	1979	1980	1981 2/	1980
Economic classification	100.0	100.0	100.0	14.5	32.1	15.7	100.0	100.0
Raw materials and semi-manufactures	53.5	51.0	49.3	23.5	26.3	...	64.7	70.6
Capital goods and equipment	17.5	15.2	13.6	0.4	17.8	...	24.4	19.5
Consumer goods	29.0	33.8	37.1	9.1	50.9	...	10.9	9.9
SITC classification	100.0	100.0	100.0	14.5	32.1	15.7	100.0	100.0
Food	8.3	9.5	8.8	-4.9	48.6	1.8	7.2	6.4
Beverages and tobacco	2.2	1.9	1.7	13.9	16.8	13.7	0.2	0.2
Raw materials	9.2	7.4	5.0	31.4	7.4	-34.3	9.2	10.2
Fuels and lubricants	3.0	2.6	1.5	32.7	13.3	-34.8	17.4	23.6
Animal and vegetable fats	0.7	0.2	0.1	182.4	-58.7	-70.2	0.2	0.6
Chemicals	9.6	11.3	13.2	32.2	58.8	47.0	11.3	12.1
Manufactured goods and equipment	23.6	22.2	21.3	22.0	24.2	11.3	15.9	15.8
Electrical and transport machinery	29.8	28.4	27.9	7.6	26.4	13.2	34.4	28.0
Miscellaneous manufactured goods	13.3	16.2	20.1	8.4	56.4	54.5	4.1	3.0
Other	0.3	0.3	0.4	-45.8	77.1	55.1	0.1	0.1

Source: Social Accounting Service, Index.

1/ Value data converted at statistical exchange rate.  
2/ January-May.

Table 19. Yugoslavia: Geographical Distribution of Exports 1/

	Percentage Share of				Percentage Growth			
	Total Exports				Over Previous Year			
	1978	1979	1980	1981 3/	1978	1979	1980	1981 3/
Developed countries	38.7	41.5	37.4	31.4	3.6	22.7	12.3	-14.0
of which:								
Industrial countries	34.5	38.1	35.8	30.3	5.9	25.5	12.0	-12.8
Of which:								
United States	6.5	5.7	4.4	3.5	25.0	0.2	5.3	-14.9
Austria	1.9	2.2	2.2	1.8	11.1	37.7	18.8	-2.6
EEC 2/	23.0	28.4	26.4	22.8	-6.3	26.9	13.7	-12.8
Of which:								
France	2.1	2.7	2.7	2.7	-11.2	45.0	21.8	2.9
Germany	8.3	9.2	8.7	8.1	21.0	26.4	5.3	-3.3
Italy	9.4	10.5	9.3	9.1	-20.0	28.8	16.3	-6.1
United Kingdom	0.9	1.2	1.0	0.6	-20.9	49.9	-5.9	-39.4
Other developed	4.2	3.4	1.6	1.1	49.3	0.7	14.8	-37.8
Less developed countries	19.1	16.4	16.4	17.5	5.4	2.4	38.0	12.8
Of which:								
Oil exporting countries	9.3	8.7	9.2	11.3	33.8	3.5	53.5	80.1
CMEA and other socialist countries	42.2	42.1	46.2	51.1	16.4	12.4	49.4	48.4
Of which:								
Czechoslovakia	4.3	5.1	4.9	4.7	18.7	34.1	32.8	20.6
German Democratic Republic	4.3	4.0	3.7	3.7	11.3	8.2	25.6	30.6
Hungary	2.1	2.7	2.4	2.2	22.5	43.9	22.2	17.0
Poland	3.8	4.4	2.9	3.0	-3.8	33.2	-8.9	9.7
Romania	2.0	2.0	1.6	1.2	0.7	15.0	9.8	-12.8
USSR	24.6	21.6	27.7	34.3	22.5	0.5	77.7	78.6
Total	100.0	100.0	100.0	100.0	7.9	14.5	32.1	15.7

Source: Data supplied by the Yugoslav authorities.

1/ Value data converted at statistical exchange rates.

2/ Membership as of 1973.

3/ January-May.

Table 20. Yugoslavia: Geographical Distribution of Imports 1/

	Percentage Share of Total Imports			Percentage Growth Over Previous Year		
	1978	1979	1980	1981 3/	1978	1980
Developed countries	56.6	57.5	52.8	53.6	2.6	31.2
of which:						
Industrial countries	54.2	55.4	50.0	54.0	8.7	31.5
of which:						
United States	6.2	8.2	6.7	5.7	12.9	70.6
Austria	2.7	3.4	3.6	3.3	25.3	29.9
EEC 2/	38.4	38.3	34.7	35.9	0.7	26.7
Of which:						
France	4.9	5.0	4.5	4.6	-1.1	31.1
Germany	18.0	17.9	16.6	15.2	14.7	28.2
Italy	8.3	8.5	7.4	7.9	-19.6	31.7
United Kingdom	3.4	2.6	2.6	3.1	-4.0	-0.6
Switzerland	2.6	2.3	2.2	2.2	39.2	13.8
Other developed countries	2.3	2.1	2.8	3.6	-9.5	23.7
Less developed countries	14.5	14.9	17.1	16.9	4.2	40.7
Of which:						
Oil exporting countries	7.1	9.3	10.1	10.1	28.5	59.7
CMEA and other socialist countries	28.9	27.6	30.1	29.5	5.6	18.9
Of which:						
Czechoslovakia	3.7	3.7	3.6	3.7	3.8	30.8
German Democratic Republic	2.6	2.6	2.3	2.5	-16.3	28.6
Hungary	2.9	1.9	1.6	1.8	25.9	-18.5
Poland	2.8	2.1	1.8	1.9	18.6	-0.9
Romania	2.0	1.5	1.0	0.8	2.1	-1.5
USSR	13.8	13.9	17.9	17.6	5.6	30.5
Total	100.0	100.0	100.0	100.0	3.7	28.8
						7.5
						12.8

Source: Data supplied by the Yugoslav authorities.

1/ Value data converted at statistical exchange rate.

2/ Membership as of 1973.

3/ January-May.

Table 21. Yugoslavia: External Reserves

(In millions of U.S. dollars; end of period)

	Reserve Position in the Fund	National Bank of Yugoslavia Official Reserves				Foreign Assets of Deposit Banks	Total
		SDRs	Gold	Foreign Exchange	Total		
1975	--	34	62	777	873	350	1,223
1976	--	10	62	1,980	2,052	658	2,710
1977	--	13	64	2,031	2,108	666	2,774
1978 I	--	12	66	2,184	2,263	714	2,978
II	77	12	66	2,000	2,155	820	2,976
III	79	24	66	2,283	2,453	869	3,322
IV	81	20	69	2,288	2,457	783	3,245
1979 I	78	52	71	1,845	2,046	727	2,773
II	--	76	71	1,711	1,858	664	2,522
III	--	72	71	1,654	1,797	942	2,739
IV	--	54	73	1,203	1,330	638	1,968
1980 I	--	74	75	762	911	424	1,335
II	--	100	78	782	960	843	1,803
III	--	79	78	802	959	1,273	2,232
IV	--	13	78	1,371	1,462	1,102	2,567
1981							
I	--	22	78	1,408	1,508	1,130	2,638
II	--	21	78	1,415	1,514	...	...

Sources: IMF, International Financial Statistics; and the National Bank of Yugoslavia.

Table 22. Yugoslavia: External Debt Disbursed and Outstanding, 1976-81 1/

(In millions of U.S. dollars)

	End of Period Totals				
	1976	1977	1978	1979	1980
A. Repayable in convertible currencies	6,998	8,413	10,471	13,462	16,853
Medium and long-term 2/	6,748	8,063	10,039	12,812	15,464
Public or publicly guaranteed	(2,368)	(2,192)	(2,332)	(...)	(...)
Private, not officially guaranteed	(4,380)	(5,871)	(7,707)	(...)	(...)
Short-term 3/	250	350	432	650	1,389
B. Repayable in bilateral currencies	934	1,127	1,362	1,490	1,542
C. Total (A and B)	7,932	9,540	11,833	14,952	18,395
					18,598
					17,748
					(...)
					(...)
					850
					1,592
					20,190

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Values converted at statistical exchange rate.

2/ Original maturity over one year (includes IMF drawings).

3/ Original maturity up to and including one year.



Table 23. Yugoslavia: External Debt Service Payments on  
Medium- and Long-term Debt, 1/ 1977-81

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981 Proj.
<hr/>					
A. Repayable in convertible currencies, excluding IMF					
Debt service	1,279	1,638	1,888	2,313	3,191
Amortization	(901)	(1,200)	(1,169)	(1,258)	(1,780)
Interest	(378)	(438)	(719)	(1,055)	(1,411)
B. Repayable in bilateral currencies					
Debt service	163	117	172	205	195
Amortization	(149)	(100)	(135)	(188)	(150)
Interest	(14)	(17)	(37)	(45)	(45)
C. On debt to IMF					
Debt service <u>2/</u>	148	114	80	101	150
Repurchases	(124)	(94)	(59)	(70)	(89)
Charges	(24)	(20)	(21)	(31)	(61)
Total					
D. Total debt service (A + B + C)	1,590	1,869	2,140	2,619	3,536
E. Debt service ratios <u>3/</u> (in per cent)					
a. Convertible currencies	16.5	17.6	16.3	17.3	20.8
b. Total	15.0	15.5	15.0	14.3	16.9

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Debts with original maturity of over one year.

2/ SDR amounts converted to U.S. dollars at average annual exchange rates.

3/ Ratio of debt service to exports of goods and services.

Table 24. Yugoslavia: Selected Indices on External Competitiveness  
(Period average)

	Trade Weighted Effective Exchange Rate Index 4/ (1)	Indices for Real Effective Exchange Rates 1/			
		Adjusted for Relative Wholesale Prices 2/		Adjusted for Relative Unit Labor Costs In Manufacturing 3/	
		Export	Import	Export	Import
		weighted 5/	weighted 6/	weighted 5/	weighted 6/
		(2)	(3)	(4)	(5)
(1975 = 100)					
1976	103.6	104.2	103.4	109.5	108.3
1977	100.6	104.3	101.7	111.8	108.6
1978	89.7	100.5	94.1	111.7	103.9
1979	83.2	100.4	91.5	111.9	101.1
1980	66.0	94.4	80.8	91.1	77.1
1978 I	93.8	103.5	97.8	111.8	105.4
II	91.6	101.2	95.5	110.1	103.3
III	88.2	99.2	92.7	117.2	108.7
IV	85.2	98.0	90.3	107.5	98.2
1979 I	85.2	99.9	91.9	110.4	100.7
II	84.7	100.6	92.6	111.9	102.3
III	82.0	101.3	91.9	120.9	109.0
IV	80.8	99.8	89.4	104.2	92.4
1980 I	77.8	100.9	88.4	103.2	89.5
II	70.5	96.4	82.9	91.6	77.8
III	57.3	85.4	72.2	81.1	67.8
IV	58.2	94.8	79.8	88.3	73.2
1981 I	59.8	108.3	90.5	96.1	79.4

Sources: Staff estimates; and United Nations, Statistical Yearbook and Monthly Bulletin of Statistics, various issues.

1/ Trade weighted foreign exchange value of the Yugoslav dinar adjusted for Yugoslavia's prices or costs relative to Western trading partners.

2/ Weighted average of Yugoslav producer prices of industrial goods (75 per cent) and agricultural goods (25 per cent) relative to a weighted average of wholesale prices of trading partners.

3/ Unit labor costs in the Yugoslav manufacturing sector relative to a weighted average of unit labor costs in manufacturing sector of the 14 industrial countries.

4/ Weighted by bilateral external trade flows with Western countries in 1975.

5/ Weighted by exports to Western trading partners in 1975.

6/ Weighted by imports from Western trading partners in 1975.

Yugoslavia--Price System

The law on the foundations of the price system and price control was passed at the beginning of 1980. This law states that the system of prices in Yugoslavia be determined in accordance with the Law on Associated Labor and requires that Organizations of Associated Labor (OALs) play a leading role in price determination. In addition, responsibility was to be shifted from the Federal Government agencies to the Republican and local governments in formulating price policies and monitoring price movements. The implementation of the new price legislation has gone through various stages. In October 1980 price controls on a number of commodities were removed, thus decreasing the number of industrial products subject to price controls from nearly 80 per cent to about two thirds. At the beginning of 1981 the Federal Bureau for Price Affairs, which had been partly responsible for controlling prices of about 80 per cent of total products and services, was abolished and replaced by Communities of Interest for prices at the federal and republican levels. The structure and functions of these communities is described below.

The system of determination of prices in Yugoslavia falls into four categories. Firstly, there are those commodities, the prices of which are under the jurisdiction of entities at the Federal level. On average, 44 per cent of industrial products fall into this category, with most price ceilings being determined by the Federal Chamber of the Economy. Secondly, there are prices that are the responsibility of the Republican and local governments. The number of products in this category varies from republic to republic because of differences in their economic structures. For example, in Slovenia, the prices of 62 per cent of industrial products are within the competence of the Republican and local government authorities. About 50 per cent of the prices of industrial products set at the regional levels are determined within the Republican Communities of Interest for Price Affairs. A further 40 per cent are formed by Organizations of Associated Labor (OALs) and must then be reported to the Republican Communities of Interest, while another 10 per cent need only be reported to the Republican Statistical Offices. With respect to services (e.g., transportation) there are agreements between the republics and the communes on the division of responsibility for their pricing. For example, in Bosnia/Hercegovina about 50 per cent of the prices of services are determined by the communes, with representatives from the 109 communes in the republic being organized into 13 communal associations.

The Federal Community of Interest for Prices consists of a governing council and a staff secretariat, and is independent of the Federal Government. The council comprises a majority of representatives from the Federal Chamber of the Economy (28 out of 43 members), representing OALs in important branches of production. Other members of the Council include seven representatives from the Federal Government, eight representatives from the republics and autonomous provinces and one representative each from the trade unions, the socialist alliance, and consumers' association. The Republican Communities of Interest for Prices are structured similarly with the majority of members of their councils being from the OALs (in Bosnia/Hercegovina, for example, 19 out of 35 and six representatives being from the local communes). The Councils determine whether price requests submitted by OALs and other economic

entities are justified. For a decision to be passed by the Council it must be supported by at least two-thirds of its members. The secretariats of these communities monitor price movements and prepare studies for the Councils on whether certain price increases are justified.

The criteria for justifying price increases were outlined in legislation enacted in March 1981. They aim at giving market forces a greater influence in the determination of prices. These criteria include: (i) the relation between supply and demand on the domestic market; (ii) the level of international prices and costs; (iii) the productivity of labor; and (iv) the distribution of income between industrial branches. Two additional considerations were specified, namely the need to use price policy to stimulate development in priority areas (e.g., raising cereal prices to promote agricultural production) and to take account of the implications of price increases for the cost of living. With respect to the latter, republican governments have an obligation according to the agreement on the implementation of price policy in 1981 to partly compensate households for increases in the prices of basic foodstuffs.

On June 18, 1981 the Yugoslav authorities introduced further price control measures in an effort to keep the increase in prices in the year to December 1981 to the official targets of 32 per cent and 30 per cent, respectively, for the retail and industrial producer price indices. These measures require that the increase in the average level of industrial producer prices and retail prices be limited to 7 per cent for the final seven months of 1981. For prices of services the limit is 5 per cent. It is further provided that the total rise in the cost of living resulting from the rise in these prices should not exceed 7.5 per cent over the same period. The Federal Community of Interest for Price Affairs and the communities for price affairs of the republics and autonomous provinces were to agree on the distribution of the average price increases among individual products and services by July 18. In reaching agreement on this distribution, rises in the prices of products and services earlier in the year are to be taken into account. The maximum prices of certain products and services fixed in regulations prior to the new price control measures are to remain in effect. If prices of any of these products and services are increased they must be kept within the price limits specified above. Within a period of six months a reassessment is to be made of whether the market disturbances and unfavorable price movements for which the price controls had been introduced have been corrected and thus whether there is a need to keep them in force.